Bundesrat **Document 502/15 (Decision)**

18/12/2015

Decision

of the Bundesrat

Communication from the Commission to the European Parliament, the Council and the European Central Bank on steps towards completing Economic and Monetary Union

COM(2015) 600 final

At its 940th session on 18 December 2015, the Bundesrat adopted the following opinion in accordance with Sections 3 and 5 of the Act on Cooperation between the Federation and the Länder in European Union Affairs (EUZBLG):

1. The Bundesrat takes note of the Communication from the Commission to the European Parliament, the Council and the European Central Bank on steps towards completing economic and monetary union.

   The further development of economic and monetary union (EMU) is a key European project for the coming years, to make the monetary union as a whole more resistant to crises and thereby to secure Europe’s prosperity for the long term. The Bundesrat welcomes the necessary discussions, initiated by the five Presidents’ report and the present Commission communication, on the future organisation of the EMU.

2. The Commission has tightened the timeframe for the European Semester process and has reduced the number of country-specific recommendations. In the view of the Bundesrat, these simplifications could help to ensure that the Commission’s recommendations are implemented in the Member States to a greater extent than previously.

3. The Bundesrat supports the Commission in its efforts to increase convergence between the countries of the euro area. It shares the Commission’s view that a benchmarking exercise and the associated

orientation towards the countries that have performed best could play an important role. However, the Commission rightly points out the methodological and substantive limitations of comparing countries. The Bundesrat agrees with the Commission's opinion that the results must be accompanied by additional economic analysis in order to avoid misinterpretation.

4. The Bundesrat notes that, along with this Communication, the Commission has just established an independent advisory European Fiscal Board (Commission Decision 2015/1937/EU of 21 October 2015), and regrets that it was not offered the opportunity to comment during the preparatory work. In the view of the Bundesrat, the resultant monitoring of compliance with the rules in the Stability and Growth Pact is highly important. Aside from this, the Bundesrat considers that the independent advisory Fiscal Board recently established by the Commission is unlikely to achieve the outcomes desired. Based on the current organisation of the Board, there are doubts as to whether the benefits are proportionate to the expected additional bureaucracy. The legal basis for setting up the Board is also unclear, as well as its relationship to the national fiscal boards.

5. The Bundesrat welcomes the Commission's intention to place stronger focus on the areas of employment and social performance in the context of economic and monetary union. The Greek crisis has demonstrated that structural reforms and the path to fiscal consolidation can lead to higher unemployment. It is therefore sensible and important, both in the impact assessment for structural reforms and in reform programmes, to take into account socio-political aspects as well as economic and financial policy.

6. The Bundesrat welcomes the Commission's recognition of the role of the social partners for the acceptance of the further development of EMU. Specifically, the Commission encourages stronger involvement of social partners in the elaboration of national reform programmes. Dialogue with the social partners is also appropriate in relation to the stronger focus on work and social performance and the desired 'pillar of social rights', in order to achieve broad acceptance of the scheme in the EMU Member States. In the long term, the social partners could also provide an important contribution to possible joint projects such as European minimum wage corridors.

7. The Bundesrat opposes the establishment of national competitiveness boards in the euro area.

8. Furthermore, the Bundesrat asserts that the ‘three pillars’ of the banking union (the start of operation of the single supervisory mechanism, the establishment of the single resolution mechanism in the euro area, and the harmonisation of the rules on deposit guarantee limits in all EU Member States) have created a sound basis for a stable banking sector in Europe.

   It is of the opinion that the provisions of the new Deposit Guarantee Schemes Directive have also significantly improved deposit protection in the EU. The Bundesrat notes that, according to the present Communication, Germany is one of only 16 Member States to have fully transposed the BRR Directive on time and one of only 10 Member States to have fully transposed the DGS Directive on time. It regards it as critical that, as of 19 October 2015, 18 Member States had failed either fully or partially to transpose the new Deposit Guarantee Schemes Directive. The Bundesrat considers it of paramount importance that all Member States that have not already done so transpose the BRR and DGS Directives as soon as possible, in order to provide for the development of stable and efficient deposit guarantee schemes in Europe. The new rules must be fully transposed by all Member States.

9. Moreover, the Bundesrat does not consider the Commission’s arguments in the Communication on the first steps towards a common European Deposit Insurance Scheme to be acceptable or effective.

   The further Europeanisation of deposit guarantee schemes above and beyond the uniform requirements of the new Deposit Guarantee Schemes Directive is not appropriate at present and could have a severe negative impact on the entire German banking sector. In particular, small or regional credit institutes or those in the SME sector with conservative business models would, by contributing to a European deposit guarantee scheme with a joint guarantee fund, be securing the deposits of other banks with potentially higher risk business policies across the EU. Stable and efficient systems would be held liable for unstable and inefficient systems.

   This applies all the more since the proposal for a Regulation put forward in the meantime provides for the steps from reinsurance via co-insurance to full insurance by 2024. It is therefore already too late to speak of ‘first steps’. The proposed Regulation would make it a fait accompli. The Bundesrat sees a danger that, rather than increasing the confidence of German savers, this may even jeopardise their existing confidence.

The Bundesrat thus rejects the establishment of a European deposit guarantee scheme and the proposals in the Communication for a joint guarantee scheme with the first step being the creation of a joint reinsurance fund supplemental to existing national deposit guarantee schemes.

The Bundesrat calls on the German Government to advocate against the establishment of a joint European deposit guarantee scheme – including in the form of a reinsurance fund.

10. The Bundesrat will support the Commission's efforts to reduce risks, ensure a level playing field in the banking sector and limit the bank-sovereign loop. This approach is basically correct. However, incorrect course adjustment could reinforce or recreate problems:

    - Reducing risks by dismantling national specificities must not call into question the three-pillar system maintained in the German banking sector.

    - Creating a level playing field must allow for the principle of proportionality. The Bundesrat understands a level playing field to mean equality of opportunity for small and medium-sized banks on the one hand and large multinational banks on the other. This requires differentiated regulations rather than a 'one size fits all' approach. The existing regulations have created problems with banks that are too small to survive.

    - One of the measures to remove the close links between banks and governments is the securitisation of government bonds with equity capital, as is being discussed by the Basel Committee. The significance of this measure in the long term for the completion of the system is matched by the many dangers engendered in overhasty action. Rash commitment of equity capital could exacerbate the credit crunch in many European countries. Furthermore, it could hinder the sale of government bonds and thus deepen the sovereign debt crisis. Great caution will be necessary in order to avoid these adverse effects.

11. The Bundesrat submits this opinion directly to the Commission.